By DAVID T. DEVLIN

# The International Investment Position of the United States: Developments in 1970

The net international investment position of the United States improved $1.8 billion in 1970, slightly more than in 1969. However, reflecting the large deficits in the net liquidity balance and in the official reserve transactions balance, the liquidity structure of our investment position deteriorated sharply.

TOTAL international assets of the United States rose $8.5 billion in 1970 and total U.S. liabilities to foreigners rose $6.7 billion. As a result, the net international investment position of the United States improved by $1.8 billion. This change was only slightly larger than the increase in 1969, but in that year the rise in both assets and liabilities was larger. At yearend 1970, total assets exceeded total liabilities by $69.1 billion. This excess of assets over liabilities was concentrated in Canada, developing countries, and in the international category; in Western Europe, liabilities exceeded assets by $18.9 billion.

NOTE.—The data used in this article was produced under the general supervision of George R. Kruer with significant contributions made by Julius Freidlin, Nancy R. Keith, E. Seymour Kerber, Russell Scholl, and Zalle Warner.

This article first considers the factors accounting for the recent changes in the U.S. net international investment position (table 1). The composition of the shifts in assets and liabilities from yearend to yearend is then discussed (tables 2 and 3). Finally, the evolving structure of the liquidity of U.S. assets and liabilities is analyzed (tables 4 and 5 and chart 9). A detailed discussion of direct investments is given in an accompanying article.

## Changes in the Net International Investment Position

Changes in the net international investment position of the United States reflect three major factors (table 1). The first is net recorded balance of payments capital flows, which must be equal, in an accounting sense, to the sum of the current account (the balance on goods, services, and unilateral transfers), allocations of SDR, and an adjustment for errors and omissions.[1] In effect, a surplus on the current account (adjusted for errors and omissions) and allocations of SDR lead to a larger net increase in U.S. assets than in U.S. liabilities with a resultant improvement in our net investment position. The second factor is reinvested earnings of U.S. affiliates abroad minus reinvested earnings of foreign enterprises in the United States. Earnings of U.S. affiliates abroad not sent back (or credited) to the United States as income (and thus not included in the current account) improve our investment position. The third factor is the net change in valuation of outstanding U.S. investments abroad and foreign investment in the United States (including adjustments in the various series for changes in coverage and statistical discrepancies); these various

1. If the errors and omissions in the balance of payments accounts could be identified, a part would presumably go into recorded capital flows and a part into the recorded current account. The current account plus allocations of SDR would then be equal to net capital flows.

**Table 1.—Factors Accounting for Changes in the Net International Investment Position of the United States[1]**

(Millions of dollars)

| Item | | Average 1961–65 | Average 1966–70 | 1966 | 1967 | 1968 | 1969 | 1970 p |
|---|---|---|---|---|---|---|---|---|
| Balance on current account (surplus (+)) | | 3,801 | 742 | 2,410 | 2,139 | −386 | −899 | 444 |
| Allocations of SDR | | | 173 | | | | | 867 |
| Adjustment for: | Errors and omissions (receipts (+)) | −874 | −1,132 | −431 | −985 | −493 | −2,603 | −1,146 |
| Equals: | Net recorded balance of payments capital flows (outflow (+)) | 2,927 | −217 | 1,979 | 1,154 | −879 | −3,502 | 165 |
| Plus: | Net reinvested earnings (increase (+)) | 1,072 | 1,777 | 1,400 | 1,158 | 1,687 | 2,173 | 2,456 |
| Plus: | Net valuation and other adjustments | −630 | −62 | 177 | −2,069 | −654 | 3,035 | −790 |
| | Of which: Changes in coverage and statistical discrepancies | 410 | 82 | 285 | 247 | 230 | −296 | −19 |
| Equals: | Change in net international investment position of the United States | 3,369 | 1,498 | 3,556 | 243 | 154 | 1,706 | 1,831 |
| *Addendum:* | Net international investment position of the United States at end of period[2] | 61,577 | 69,067 | 65,133 | 65,376 | 65,530 | 67,236 | 69,067 |

p Preliminary.
1. Revised.
2. The net position at the end of a given period is equal to the position at the end of the preceding period plus the total net change during the period.

**Table 2.—Changes in the International Investment Position of the United States Reconciled with Balance of Payments Capital Flows**

[Millions of dollars]

| Lines in table 3 | Net international investment position and U.S. assets abroad: Item (increase) (+) | 1969 | 1970 |
|---|---|---|---|
| 1 | Net international investment position of the United States | 1,706 | 1,831 |
| | Balance of payments capital flows | −3,602 | 164 |
| | Other than capital flows | 5,298 | 1,667 |
| 2 | U.S. assets abroad | 11,280 | 8,516 |
| | Capital flows | 8,804 | 5,989 |
| | Other than capital flows | 2,476 | 2,528 |
| 3 | Nonliquid assets | 10,031 | 11,234 |
| | Capital flows | 7,741 | 8,708 |
| | Other than capital flows | 2,290 | 2,527 |
| 4 | U.S. Government | 2,190 | 1,485 |
| 5, 6 | Long-term credits | 2,281 | 1,479 |
| | Capital flows | 2,282 | 1,566 |
| | Exchange rate adjustments | (*) | −86 |
| | Losses on write-offs | −3 | ---------- |
| | Changes in coverage and statistical discrepancies | 2 | −1 |
| 7 | Foreign currencies and other short-term assets | −92 | −12 |
| | Capital flows | −90 | 27 |
| | Exchange rate adjustments | −8 | −32 |
| | Changes in coverage and statistical discrepancies | 5 | −6 |
| 8 | Private, long-term | 6,764 | 8,392 |
| 9 | Direct investments abroad | 6,032 | 7,074 |
| | Capital flows | 3,254 | 4,403 |
| | Reinvested earnings | 2,604 | 2,900 |
| | Valuation adjustments | 176 | −229 |
| 10 | Foreign bonds | 6 | 1,442 |
| | Capital flows | 1,027 | 874 |
| | Price changes | −1,021 | 516 |
| | Exchange rate adjustments | ---------- | 52 |
| 11 | Foreign corporate stocks | 504 | −515 |
| | Capital flows | 467 | 80 |
| | Price changes | 34 | −769 |
| | Exchange rate adjustments | ---------- | 174 |
| 12 | Other claims, reported by U.S. banks | −217 | −183 |
| | Capital flows | −317 | −183 |
| 13 | Other claims, reported by U.S. nonbanking concerns | 541 | 579 |
| | Capital flows | 424 | 577 |
| | Statistical discrepancies | 117 | 2 |
| 14 | Private, short-term nonliquid | 1,077 | 1,378 |
| 15 | Claims reported by U.S. banks | 743 | 1,016 |
| | Capital flows | 688 | 1,015 |
| | Statistical discrepancies | 55 | ---------- |
| 16 | Claims reported by U.S. nonbanking concerns | 334 | 361 |
| | Capital flows | 35 | 360 |
| | Statistical discrepancies | 299 | 1 |
| 17 | Liquid assets | 1,249 | −2,709 |
| | Capital flows | 1,063 | −2,710 |
| | Other than capital flows | 186 | 1 |
| 18 | Private | −5 | −241 |
| 19 | Claims reported by U.S. banks | 213 | 119 |
| | Capital flows | 209 | 119 |
| | Statistical discrepancies | 4 | ---------- |
| 20 | Claims reported by U.S. nonbanking concerns | −218 | −360 |
| | Capital flows | −332 | −361 |
| | Changes in coverage and statistical discrepancies | 114 | 1 |
| 21 | U.S. monetary reserve assets | 1,254 | −2,477 |
| 22 | Gold | 967 | −787 |
| 23 | SDR | ---------- | 851 |
| 24 | Convertible currencies | −747 | −2,152 |
| | Capital flows | −814 | −2,152 |
| | Exchange rate adjustments | 67 | ---------- |
| 25 | Gold tranche position in IMF | 1,034 | −389 |

| Lines in table 3 | U.S. Liabilities to foreigners: Item (increase) (+) | 1969 | 1970 |
|---|---|---|---|
| 26 | U.S. liabilities to foreigners | 9,574 | 6,485 |
| | Capital flows | 12,306 | 5,624 |
| | Other than capital flows | −2,732 | 861 |
| 27 | Nonliquid liabilities to other than foreign official agencies | 2,202 | 5,583 |
| | Capital flows | 5,159 | 4,722 |
| | Other than capital flows | −2,958 | 861 |
| 28 | U.S. Government | 274 | −435 |
| | Capital flows | 263 | −436 |
| | Exchange rate adjustments | 10 | (*) |
| 29 | Private, long-term | 1,650 | 5,150 |
| 30 | Direct investments in the United States | 1,003 | 1,391 |
| | Capital flows | 832 | 969 |
| | Reinvested earnings | 431 | 434 |
| | Valuation adjustments | −260 | −12 |
| 31 | Corporate and other bonds | 686 | 2,078 |
| | Capital flows | 1,547 | 1,493 |
| | Price changes | −861 | 585 |
| 32 | Corporate stocks | −1,410 | 543 |
| | Capital flows | 1,565 | 687 |
| | Price changes | −2,975 | −140 |
| 33 | Other liabilities, reported by U.S. banks | 160 | 16 |
| | Capital flows | 160 | 16 |
| 34 | Other liabilities, reported by U.S. nonbanking concerns | 1,221 | 1,163 |
| | Capital flows | 701 | 1,163 |
| | Statistical discrepancies | 520 | ---------- |
| 35 | Private, short-term nonliquid, reported by U.S. nonbanking concerns | 368 | 633 |
| | Capital flows | 91 | 630 |
| | Statistical discrepancies | 277 | 3 |
| 36 | Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies | 7,372 | 1,102 |
| | Capital flows | 7,147 | 1,102 |
| | Other than capital flows | 225 | ---------- |
| 37 | To private foreigners | 8,784 | −6,242 |
| 38 | To foreign commercial banks | 9,161 | −6,507 |
| | Capital flows | 9,166 | −6,507 |
| | Statistical discrepancies | −5 | ---------- |
| 39 | To international and regional organizations | −59 | 179 |
| | Capital flows | −63 | 179 |
| | Statistical discrepancies | 4 | ---------- |
| 40 | To other foreigners | −318 | 86 |
| | Capital flows | −441 | 86 |
| | Statistical discrepancies | 123 | ---------- |
| 41 | To foreign official agencies | −1,412 | 7,344 |
| 42 | Nonliquid | −914 | −275 |
| 43 | Reported by U.S. Government | −78 | 535 |
| | Capital flows | −162 | 535 |
| | Exchange rate adjustments | 84 | ---------- |
| 44 | Reported by U.S. banks | −836 | −810 |
| | Capital flows | −836 | −810 |
| 45 | Liquid | −498 | 7,619 |
| | Capital flows | −517 | 7,619 |
| | Exchange rate adjustments | 17 | ---------- |
| | Statistical discrepancies | 2 | ---------- |

**Table 3.—International Investment Position of the United States at Yearend‡**

[Millions of dollars]

| Line | Type of investment | Total 1960r | Total 1965r | Total 1969r | Total 1970p | Western Europe 1969r | Western Europe 1970p | Canada 1969r | Canada 1970p | Japan 1969r | Japan 1970p | Latin American Republics and Other Western Hemisphere 1969r | Latin American Republics and Other Western Hemisphere 1970p | Other foreign countries 1969r | Other foreign countries 1970p | International organizations and unallocated‡ 1969r | International organizations and unallocated‡ 1970p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Net international investment position of the United States | 44,720 | 61,577 | 67,226 | 69,067 | −14,116 | −18,946 | 22,612 | 25,762 | 1,683 | 1,183 | 16,184 | 19,443 | 23,179 | 25,971 | 16,923 | 17,483 |
| 2 | U.S. assets abroad | 85,589 | 120,374 | 158,468 | 166,974 | 41,336 | 41,428 | 34,386 | 38,981 | 5,552 | 7,237 | 25,306 | 28,516 | 29,586 | 31,987 | 19,891 | 20,426 |
| 3 | Nonliquid assets | 66,230 | 103,156 | 138,490 | 140,714 | 37,443 | 40,021 | 33,368 | 35,946 | 5,369 | 7,086 | 25,142 | 28,272 | 29,449 | 31,840 | 5,708 | 6,568 |
| 4 | U.S. Government | 16,920 | 23,366 | 34,731 | 32,197 | 8,283 | 8,028 | 16 | 34 | 728 | 675 | 5,626 | 6,318 | 14,579 | 14,809 | 1,290 | 1,352 |
| | Long-term credits: | | | | | | | | | | | | | | | | |
| 5 | Repayable in dollars[2] | 14,028 | 14,966 | 21,962 | 23,514 | 6,961 | 6,831 | 10 | 14 | 699 | 547 | 4,121 | 5,694 | 7,976 | 9,166 | 1,206 | 1,848 |
| 6 | Other[3] | | 5,234 | 6,239 | 5,186 | 1,053 | 951 | ........ | ........ | 69 | 92 | 572 | 689 | 4,415 | 4,447 | ........ | ........ |
| 7 | Foreign currencies and other short-term assets | 2,892 | 3,196 | 2,610 | 2,498 | 249 | 256 | 6 | 5 | 34 | 30 | 33 | 35 | 2,188 | 2,188 | 4 | 4 |
| 8 | Private, long-term | 44,447 | 71,376 | 95,241 | 104,693 | 20,829 | 20,589 | 32,697 | 35,073 | 2,136 | 2,347 | 16,975 | 18,118 | 13,394 | 14,351 | 4,400 | 5,216 |
| 9 | Direct investments abroad | 31,865 | 49,474 | 71,016 | 78,090 | 21,630 | 24,471 | 21,127 | 23,641 | 1,244 | 1,491 | 13,841 | 14,683 | 10,069 | 11,082 | [3] 3,065 | [3] 3,563 |
| | Foreign securities: | | | | | | | | | | | | | | | | |
| 10 | Foreign bonds | 6,674 | 10,186 | 11,718 | 13,164 | 687 | 535 | 6,917 | 7,874 | 284 | 260 | 930 | 1,050 | 1,675 | 1,776 | 1,334 | 1,653 |
| 11 | Foreign corporate stocks | 3,984 | 5,048 | 6,953 | 6,437 | 2,840 | 2,863 | 3,460 | 3,180 | 296 | 387 | 114 | 141 | 210 | 316 | ........ | ........ |
| 12 | Other claims, reported by U.S. banks | 1,698 | 4,317 | 3,060 | 2,667 | 466 | 471 | 206 | 172 | 68 | 116 | 1,330 | 1,319 | 968 | 850 | ........ | ........ |
| 13 | Other claims, reported by U.S. nonbanking concerns[4] | 1,370 | 2,371 | 3,564 | 4,139 | 1,290 | 1,640 | 690 | 1,167 | 141 | 139 | 761 | 916 | 373 | 439 | ........ | ........ |
| 14 | Private, short-term nonliquid | [5] 4,613 | 8,285 | 11,446 | 12,624 | 2,331 | 2,404 | 696 | 840 | 2,505 | 4,046 | 3,340 | 3,836 | 1,576 | 1,689 | (*) | (*) |
| 15 | Claims reported by U.S. banks | [5] 3,404 | 6,846 | 8,569 | 9,584 | 1,080 | 1,092 | 348 | 483 | 2,316 | 3,782 | 2,785 | 3,081 | 1,111 | 1,146 | (*) | (*) |
| 16 | Claims reported by U.S. nonbanking concerns | [5] 1,219 | 1,530 | 2,879 | 3,240 | 1,262 | 1,312 | 348 | 356 | 189 | 264 | 635 | 755 | 465 | 543 | ........ | ........ |
| 17 | Liquid assets | 19,359 | 17,218 | 19,978 | 26,260 | 3,898 | 1,407 | 1,018 | 1,035 | 183 | 180 | 164 | 244 | 137 | 147 | 14,183 | 13,858 |
| 18 | Private | (5) | 1,768 | 3,014 | 2,374 | 1,118 | 779 | 1,018 | 1,035 | 183 | 188 | 164 | 244 | 167 | 147 | ........ | ........ |
| 19 | Claims reported by U.S. banks | (5) | 889 | 1,396 | 1,217 | 328 | 310 | 478 | 601 | 116 | 108 | 99 | 110 | 77 | 88 | ........ | ........ |
| 20 | Claims reported by U.S. nonbanking concerns | (5) | 879 | 1,618 | 1,156 | 785 | [6] 469 | 540 | 434 | 66 | 80 | 64 | [6] 134 | 80 | [6] 59 | ........ | ........ |
| 21 | U.S. monetary reserve assets | 19,359 | 15,450 | 16,964 | 14,487 | 2,780 | 628 | (*) | (*) | 1 | 1 | ........ | ........ | ........ | ........ | 14,183 | 13,858 |
| 22 | Gold | 17,804 | 13,806 | 11,859 | 11,072 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | 11,859 | 11,072 |
| 23 | SDR | ........ | ........ | ........ | 851 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | 851 |
| 24 | Convertible currencies | ........ | 781 | 2,781 | 629 | 2,780 | 628 | (*) | (*) | 1 | 1 | ........ | ........ | ........ | ........ | ........ | ........ |
| 25 | Gold tranche position in IMF | 1,555 | 863 | 2,324 | 1,935 | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | ........ | 2,324 | 1,935 |
| 26 | U.S. liabilities to foreigners[7] | 40,869 | 58,797 | 91,242 | 97,907 | 55,452 | 60,374 | 11,774 | 13,219 | 4,069 | 6,054 | 9,122 | 8,873 | 6,407 | 6,016 | 2,968 | 2,973 |
| 27 | Nonliquid liabilities to other than foreign official agencies | 19,694 | 29,224 | 44,883 | 50,466 | 31,477 | 36,038 | 6,361 | 6,722 | 1,090 | 646 | 3,552 | 3,781 | 3,613 | 1,893 | 1,449 | 1,832 |
| 28 | U.S. Government[8] | 762 | 1,944 | 3,406 | 1,970 | 1,936 | 1,806 | 33 | 22 | 34 | 32 | 47 | 35 | 364 | 88 | ........ | ........ |
| 29 | Private, long-term | 18,418 | 26,318 | 39,072 | 44,768 | 27,633 | 31,820 | 6,049 | 6,461 | 855 | 664 | 3,262 | 3,496 | 1,026 | 1,468 | 1,449 | 1,832 |
| 30 | Direct investments in the United States | 6,910 | 8,797 | 11,818 | 13,209 | 8,610 | 9,615 | 2,834 | 3,112 | 176 | 239 | 161 | 226 | 137 | 121 | ........ | ........ |
| | U.S. securities: | | | | | | | | | | | | | | | | |
| 31 | Corporate and other bonds | 649 | 916 | 4,870 | 6,878 | 3,770 | 5,214 | 87 | 237 | (*) | 2 | 82 | 101 | 122 | 163 | 729 | 1,161 |
| 32 | Corporate stocks | 9,302 | 14,690 | 19,141 | 18,089 | 12,106 | 13,616 | 2,960 | 2,912 | 10 | 29 | 2,186 | 2,244 | 780 | 717 | 160 | 181 |
| 33 | Other liabilities, reported by U.S. banks | 7 | 303 | 968 | 1,001 | [9] 54 | [9] 172 | [9] (*) | [9] 3 | [9] 465 | [9] 386 | [9] 427 | [9] 413 | [9] 697 | [9] 232 | [9] 557 | [9] 490 |
| 34 | Other liabilities, reported by U.S. nonbanking concerns[4] | 1,560 | 2,610 | 3,828 | 4,061 | 3,563 | 4,112 | 178 | 167 | 11 | 29 | 538 | 420 | 210 | 223 | ........ | ........ |
| 35 | Private, short-term nonliquid, reported by U.S. nonbanking concerns | 410 | 965 | 2,906 | 3,738 | 2,006 | 3,063 | 270 | 240 | 143 | 146 | 242 | 380 | 294 | 341 | ........ | ........ |
| 36 | Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies | 21,029 | 29,573 | 45,939 | 47,041 | 23,975 | 24,226 | 5,413 | 6,497 | 3,370 | 5,288 | 5,770 | 5,092 | 3,804 | 4,123 | 1,513 | 1,141 |
| 37 | To private foreigners | 9,139 | 12,909 | 28,387 | 22,646 | 16,845 | 10,594 | 3,780 | 3,546 | N.s.s. | N.s.s. | 4,075 | 3,545 | N.s.s. | N.s.s. | 493 | 575 |
| 38 | To foreign commercial banks[10] | 4,818 | 7,410 | 23,633 | 17,136 | 15,382 | 9,079 | 3,261 | 3,048 | N.s.s. | N.s.s. | 1,901 | 1,304 | N.s.s. | N.s.s. | ........ | ........ |
| 39 | To international and regional organizations | 1,541 | 1,431 | 663 | 842 | 6 | 17 | ........ | ........ | ........ | ........ | 118 | 165 | 46 | 96 | 493 | 575 |
| 40 | To other foreigners | 2,780 | 4,068 | 4,591 | 4,677 | 1,507 | 1,498 | 588 | 498 | N.s.s. | N.s.s. | 2,056 | 2,136 | N.s.s. | N.s.s. | ........ | ........ |
| 41 | To foreign official agencies | 11,889 | 16,664 | 17,552 | 24,395 | 7,130 | 13,691 | 1,624 | 2,951 | N.s.s. | N.s.s. | 1,695 | 1,547 | N.s.s. | N.s.s. | 1,010 | 565 |
| 42 | Nonliquid | 2 | 458 | 4,039 | 3,794 | 1,270 | 645 | 1,129 | 2,280 | ........ | ........ | ........ | ........ | 135 | 135 | ........ | ........ |
| 43 | Reported by U.S. Government[8] | 2 | 338 | 2,634 | 3,099 | 1,270 | 645 | 1,129 | 2,280 | ........ | ........ | ........ | ........ | 135 | 135 | ........ | ........ |
| 44 | Reported by U.S. banks | ........ | 120 | 1,405 | 694 | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) | (9) |
| 45 | Liquid | 11,885 | 16,206 | 13,013 | 20,602 | 5,860 | 13,046 | 495 | 662 | N.s.s. | N.s.s. | 1,608 | 1,547 | N.s.s. | N.s.s. | 1,019 | 565 |

r Revised. p Preliminary. *Less than $500,000 (±). ‡ Includes U.S. gold stock.
N.s.s. Not shown separately.

1. Also includes paid-in capital subscription to international financial institutions (other than IMF) and outstanding amounts of miscellaneous claims which have been settled through international agreements to be payable to the U.S. Government over periods in excess of 1 year. Excludes World War I debts that are not being serviced.
2. Includes indebtedness which the borrower may contractually, or at its option, repay with its currency, with a third country's currency, or by delivery of materials or transfer of services.
3. For the most part represents the estimated investment in shipping companies registered primarily in Panama and Liberia.
4. The long-term position data given here include estimates for real estate, insurance, estates and trusts.
5. Liquid claims are not available separately and are included with nonliquid claims.
6. In 1970 country detail for Western Europe includes the European Economic Community, United Kingdom, and Switzerland only, and for Latin America and O.W.H. includes only Bahamas and Bermuda. Remaining countries are not separately identified due to insignificant amounts and are included in other foreign countries.
7. The regional breakdown for liability lines may not add to the world total since certain items cannot be shown separately and because of the assumptions made regarding lines 33 and 44 (see footnote 9).
8. U.S. government liabilities are broken down into those to foreign official reserve agencies in line 43 and those to others in line 28, including foreign official agencies other than reserve agencies. U.S. government notes held by the Canadian Government in connection with the 1964 Columbia River power rights arrangements are included in the entries for foreign official reserve agencies.
9. In the regional breakdown, nonliquid liabilities to foreign official agencies reported by U.S. banks are included with private long-term liabilities reported by U.S. banks, and, for summation purposes in the regional presentation, line 44 is assumed to be zero and any entries that would appear there are considered part of line 33.
10. As reported by U.S. banks; ultimate ownership is not identified.

adjustments are also not included in the balance of payments accounts. Essentially, we improve our net investment position by net sales abroad of real goods and services (minus unilateral transfers), or by reinvesting foreign earnings abroad, but the position is also affected by changes in valuation of outstanding assets and liabilities.

While the change in the U.S. net investment position can be considered to be accounted for by these factors, capital flows, of course, may have a major impact on trade, services, and earnings. To the extent this occurs, the change in the net investment position is not determined independently of capital flows. However, an outflow of capital from the United States, although it increases assets abroad, does not result in a *net* change in the U.S. international investment position unless one of the other factors mentioned is influenced. If there is a capital outflow and an increase in assets without a corresponding change in the current account (or errors and omissions) there would be an equal increase in liabilities (or offsetting change in other assets) with no change in the net investment position.

From 1961 through 1966, there was a rather consistent improvement in our net investment position, averaging over $3.4 billion per year. This largely reflected a strong positive trade balance and growing income on investments (and thus a surplus on the current account), as well as a moderate growth in reinvested earnings; these factors were only partly offset by adverse valuation adjustments. The recorded change in the net investment position was also adversely affected by the negative errors and omissions. However, in 1967 (when the valuation adjustment was particularly adverse), and in 1968 (when the trade balance dropped sharply), the net investment position showed only small increases. In 1969 and 1970, the improvements in the net investment position were again substantial, although smaller than in earlier years.

The recorded improvement in 1969 was due to very large net favorable valuation adjustments (mostly reflecting price changes in outstanding security holdings), only partly offset by large adverse movements in the current account and in the adjustment for errors and omissions. There is evidence to suggest that the large increase in outflows on errors and omissions was due to flows of U.S. funds to the Eurodollar market. If such flows had been recorded, the improvement in the net investment position in 1969 would have been substantially larger. In 1970, on the other hand, the improvement in the net investment position reflected a favorable shift in the current account, a smaller adverse adjustment for errors and omissions and the initial $867 million allocation of SDR (which resulted in an increase in U.S. official reserve holdings and in an improvement in our net investment position of the same amount). Valuation adjustments became negative. In both 1969 and 1970, reinvested earnings had a large favorable impact on our net investment position.

## Changes in U.S. Assets and Liabilities

Total U.S. assets abroad rose $8.5 billion in 1970, as noted earlier; $6.0 billion reflected reported balance of payments capital outflows, and $2.5 billion other factors (tables 2 and 3). The latter included $2.9 billion of reinvested earnings on U.S. direct investment abroad (which is not now counted as a capital outflow in the balance of payments) and large but mostly offsetting valuation adjustments. The value of U.S. holdings of foreign bonds increased $0.5 billion due to increases in the prices of outstanding bonds and the value of outstanding U.S. holdings of foreign stocks was reduced $0.8 million as prices in foreign stock markets declined. There were also lesser valuation adjustments in a number of other accounts.

Total U.S. liabilities rose $6.7 billion in 1970; $5.8 billion reflected balance of payments capital inflows and $0.9 billion other factors. The latter increase was mostly accounted for by $0.4 billion of reinvested earnings of foreign direct investment in the United States and a $0.6 billion adjustment to the outstanding value of foreign holdings of U.S. bonds due to price increases in such bonds.

As a result of these changes in U.S. assets and liabilities in 1970, the net investment position rose $1.8 billion. Balance of payments flows contributed less than $0.2 billion net to the change, while other factors, primarily net reinvested earnings, contributed almost $1.7 billion.

## Liquidity Structure

The evolution of the liquidity structure of outstanding U.S. assets and liabilities can be conveniently analyzed in terms of the ratios computed in table 4 and shown in chart 9. Use of such ratios has certain limitations, as indicated below, and a complete analysis of external developments requires that one also take into account the absolute magnitudes shown in the investment position, as well as the flows shown in the conventional balance of payments tables. The general impression of developments in the last decade given by the ratios confirms what was already indicated by the balance of payments figures: Although our net investment position improved in most years, the liquidity structure of our position showed a persistent deterioration. Use of the ratios facilitates investigation of a number of interesting aspects of these developments.

Ratio $A_1$, U.S. official reserve assets to U.S. liabilities to foreign official agencies, is the investment position counterpart of the official reserve transactions balance in balance of payments analysis. The larger the deficit in the official balance, the greater the loss of reserves and/or the greater the increase in liabilities to foreign official agencies. Correspondingly, the greater the loss of reserves or the greater the increase in liabilities to official foreigners, the lower the ratio of U.S. reserves to liabilities to foreign official agencies. Thus the evolution of the $A_1$ ratio generally reflects the impact of the official reserve transactions balance on the U.S.-investment position.

The correspondence is not exact, however, because the position figures are affected by valuation and coverage adjustments while the balance of payments is not. The $A_1$ ratio is also somewhat affected by the method of financing an official reserve transactions deficit, i.e., whether it is financed by a decrease in reserves or by an increase in liabilities, while the balance itself is not affected.

When the $A_1$ ratio is greater than 1.0 (and reserves exceed liabilities, as from 1960 to 1963) a deficit of a given size will cause a greater reduction in the ratio if it is financed by an increase in liabilities than if it is financed by a decrease in reserves. When the ratio is 1.0 or less, a given loss of reserves has a greater adverse impact on the ratio than an equal increase in liabilities. (This reflects the general behavior of all ratios on either side of 1.0.)

Substantial deficits in the official settlements balance in most years from 1960 through 1967 led to a persistent decline in the $A_1$ ratio, although the trend flattened in the mid-1960's when the balance temporarily improved. In 1968 and 1969, however, the official balance was in substantial surplus and the ratio improved. At end-1969, it stood at 0.99 (about the same as in 1964). At this value, U.S. reserves were about equal to our liabilities to foreign official agencies.

In 1970, when U.S.-monetary conditions eased sharply, the official reserve transactions balance showed an enormous deficit, which resulted in both a large loss of reserves and a sharp increase in liabilities to foreign official agencies. As a result, ratio $A_1$ declined sharply from 0.99 to 0.59. The ratio dropped significantly lower in the first half of 1971 when the official deficit became larger.

Ratio $A_2$ is a variant of ratio $A_1$. It takes into account liquid claims of U.S. private residents, as well as official reserves, on the asset side and compares them with liabilities to foreign official agencies. Thus it assumes that private liquid claims are some kind of supplement to official reserves. As expected, the level of this ratio is slightly higher than that of the $A_1$ ratio, but its movements are parallel. (Note that both ratios are identical for 1960 to 1962 because liquid claims of U.S. residents cannot be separately identified in the basic statistics.)

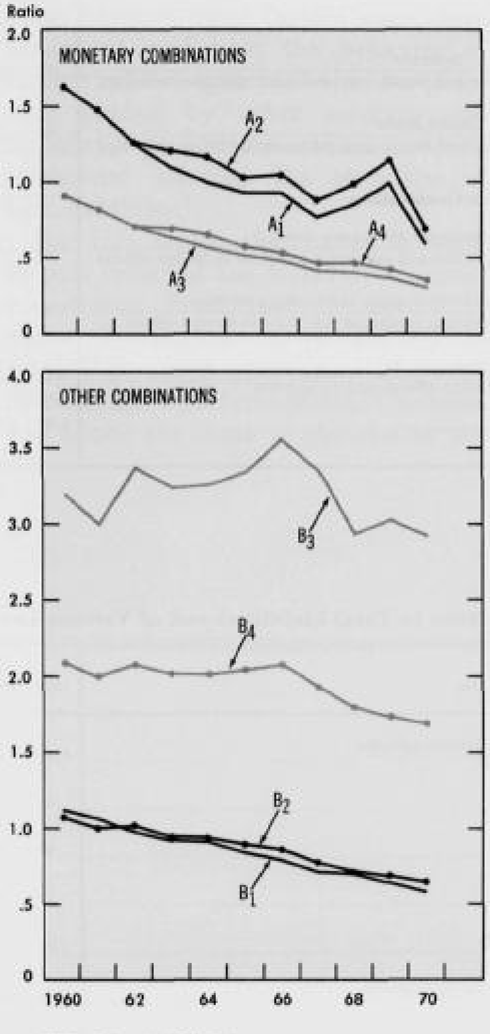
The counterpart of the net liquidity balance in the investment position is given by ratio $A_4$, which compares liquid assets (both private liquid claims and U.S. official reserves) to liquid liabilities to private foreigners and liabilities to foreign official agencies. The net sum of these factors are the financing of the net liquidity balance. The larger the net liquidity deficit, the faster the decline in the ratio. The ratio is also affected by valuation adjustments and by the way in which the net liquidity balance is financed. Reflecting the continuous deficits in the net liquidity balance since 1960, ratio $A_4$ shows a parallel decline, reaching a low of 0.36 at end-1970. At this point, U.S.-liquid assets were only about one third of our comparable liabilities.

Ratio $A_3$ is a variant of ratio $A_4$. It is the counterpart in the investment position to what might be called a gross liquidity balance in balance of payments analysis (although such a balance is not computed in the standard presentation). In such a balance, increases in liquid claims of U.S. residents would not be considered an offset to increases in liquid liabilities to private foreigners. Thus, this ratio compares only reserves on the asset side (leaving out liquid private claims) to liquid liabilities to private foreigners and liabilities to foreign official agencies. As a result, its level is slightly lower than ratio $A_4$, but the movements of the two ratios are parallel.

While ratios exactly comparable to the official reserve transactions balance and the net liquidity balance can be constructed for the investment position, no exactly comparable ratio can be constructed for the third major balance in the balance of payments presentation, the balance on current account and long-term capital. This is because all the financing items of the net liquidity balance and the official balance are included as part of the investment position; for the balance on current account and long-term capital, however, some of the financing items are not appropriately considered as items in investment position. These consist of errors and omissions, which have been quite large recently, and allocations of SDR, which occurred for the first time in 1970. It is possible, however, to construct a ratio using the rest of the financing items of the balance on current account and long-term capital and thus get a rough proxy for this balance. This ratio is shown as $B_1$, which compares U.S. short-term assets (nonliquid and liquid short-term claims of U.S. private residents and U.S. official reserves) to short-term liabilities (nonliquid and liquid short-term liabilities to private foreigners and all liabilities to foreign official agencies). As with the other balances

CHART 9

**Liquidity Ratios: Outstanding U.S. Assets Abroad to Liabilities to Foreigners by Degree of Liquidity**




NOTE.—Refer to table 4 for data.

U.S. Department of Commerce, Office of Business Economics 71-10-9 and their corresponding ratios, ratio $B_1$ is affected (and the balance is not) by valuation adjustments and by the way in which the balance is financed. The larger the deficit in the balance on current account and long-term capital, the smaller the ratio (except for the impact of errors and omissions and allocations of SDR which the ratio does not take into account).

Since 1960, the $B_1$ ratio has shown a persistent decline reflecting the deficits in the balance on current account and long-term capital for most years (except in 1961 and 1964 when it was about in balance). By end-1970, this ratio of short-term assets to liabilities had fallen to 0.58.

Ratio $B_2$ is a variant of $B_1$. In addition to U.S. short-term claims, U.S. holdings of foreign securities are added to assets, and foreign holdings of U.S. securities are added to U.S. short-term liabilities. This comparison of a somewhat wider spectrum of assets and liabilities gives results surprisingly similar to the simple comparison of short-term assets and liabilities (chart 9), despite the fact that holdings of securities have shown quite substantial changes and are very large. (U.S. holdings of foreign securities totaled over $20 billion in 1970, and foreign holdings of U.S. securities totaled over $25 billion.) Our liquidity structure, looked at either way, deteriorated by roughly the same amount in the decade.

Ratios $B_3$ and $B_4$ throw further light

**Table 4.—Liquidity Ratios: Outstanding U.S. Assets Abroad to Liabilities to Foreigners, by Degree of Liquidity**

| Refer to chart 9 | Lines in table 3 | Ratios | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Monetary Combinations** | | | | | | | | | | | |
| $A_1$ | $\frac{21}{41}$ | Reserves / Liabilities to foreign official agencies | 1.60 | 1.48 | 1.29 | 1.10 | 1.00 | 0.92 | 0.93 | 0.77 | 0.65 | 0.59 | 0.69 |
| $A_2$ | $\frac{17}{41}$ | Liquid assets / Liabilities to foreign official agencies | 1.64 | 1.48 | 1.29 | 1.23 | 1.17 | 1.[illegible] | 1.04 | .88 | .80 | 1.15 | .69 |
| $A_3$ | $\frac{21}{36}$ | Reserves / Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies | .92 | .83 | .71 | .64 | .57 | .53 | .48 | .45 | .41 | .37 | .31 |
| $A_4$ | $\frac{17}{36}$ | Liquid assets / Liquid liabilities to private foreigners and liquid and nonliquid liabilities to foreign official agencies. | .92 | .82 | .71 | .70 | .60 | .63 | .54 | .47 | .47 | .43 | .36 |
| | | **Other Combinations** | | | | | | | | | | | |
| $B_1$ | $\frac{14+17}{35+36}$ | Liquid and nonliquid short-term assets / Liquid and nonliquid short-term liabilities and nonliquid liabilities to foreign official agencies | 1.12 | 1.06 | .98 | .82 | .91 | .86 | .79 | .71 | .70 | .64 | .58 |
| $B_2$ | $\frac{10+11+14+17}{31+32+35+36}$ | Liquid and nonliquid short-term assets and foreign securities / Liquid and nonliquid short-term liabilities, nonliquid liabilities to foreign official reserve agencies, and U.S. securities | 1.07 | 1.00 | 1.01 | .95 | .94 | .89 | .80 | .78 | .72 | .69 | .65 |
| $B_3$ | $\frac{4+8}{28+20}$ | Long-term assets / Long-term liabilities to other than foreign official reserve agencies | 3.20 | 3.[illegible] | 3.38 | 3.25 | 3.27 | 3.35 | 3.18 | 3.30 | 2.06 | 3.03 | 2.[illegible] |
| $B_4$ | $\frac{2}{25}$ | Total U.S. assets abroad / Total U.S. liabilities to foreigners | 2.00 | 2.00 | 2.08 | 2.04 | 2.07 | 2.05 | 2.06 | 1.95 | 1.81 | 1.74 | 1.70 |

**Table 5.—Ratios of Long-term Liabilities to Total Liabilities and of Various Long-Term Assets to Total Assets**

| Refer to lines in table 3 | Ratios | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $\frac{28+20}{25}$ | Long-term liabilities to other than foreign official reserve agencies / Total U.S. liabilities to foreigners | 0.47 | 0.46 | 0.44 | 0.47 | 0.47 | 0.48 | 0.47 | 0.46 | 0.40 | 0.46 | 0.45 |
| $\frac{4+8}{2}$ | Long-term assets / Total U.S. assets abroad | .72 | .73 | .75 | .76 | .78 | .79 | .80 | .80 | .80 | .80 | .83 |
| $\frac{9}{2}$ | Direct investments abroad / Total U.S. assets abroad | .37 | .38 | .38 | .30 | .39 | .41 | .44 | .44 | .44 | .45 | .47 |
| $\frac{10+11}{2}$ | Foreign securities / Total U.S. assets abroad | .11 | .12 | .13 | .13 | .13 | .13 | .12 | .12 | .12 | .12 | .12 |
| $\frac{12}{2}$ | Private long-term claims reported by U.S. banks / Total U.S. assets abroad | .02 | .02 | .02 | .03 | .04 | .04 | .03 | .03 | .02 | .02 | .02 |
| $\frac{13}{2}$ | Private long-term claims reported by U.S. nonbanking concerns / Total U.S. assets abroad | .02 | .02 | .03 | .02 | .02 | .02 | .02 | .02 | .02 | .02 | .02 |
| $\frac{4}{3}$ | U.S. Government assets abroad / Total U.S. assets abroad | .20 | .19 | .20 | .20 | .19 | .19 | .19 | .19 | .19 | .19 | .19 |

on the evolving structure of our investment position. Ratio $B_3$ is a comparison of long-term assets (i.e., all nonliquid assets except those that are short-term) to long-term liabilities (i.e., all nonliquid liabilities except short-term ones and those to foreign official agencies). Ratio $B_4$ compares total assets to total liabilities.

From 1960 to 1966, the ratio of total assets to total liabilities ($B_4$) remained roughly constant, although there was usually an absolute improvement in the net investment position. At the same time, the ratio of long-term assets to long-term liabilities ($B_3$) rose from about 3.0 to over 3.5. This change reflected the sharp increase in long-term assets. As shown in table 5, long-term liabilities remained a relatively constant proportion (about 47 percent) of total liabilities, but long-term assets as a proportion of total assets showed a persistent increase (from 72 to 80 percent).

After 1966, the ratio of total assets to total liabilities dropped persistently. In 1967 and 1968 both assets and liabilities grew by roughly the same amount and in 1969 and 1970, although assets grew more than liabilities (an improvement in the net investment position), the growth of assets was not large enough to maintain the same ratio. The ratio of long-term assets to long-term liabilities generally also dropped during this period and by 1968 it was back to about the same level it had been in 1961, and it remained there through 1970. The proportion of long-term liabilities to total liabilities still remained roughly the same after 1966, but in contrast to the earlier period, the proportion of long-term assets to total assets also remained relatively constant.

These developments raise a number of questions (with less than obvious answers). Why did foreigners maintain their long-term (and short-term) holdings at such a fixed proportion of their total assets in the United States for the decade? What caused the rising trend (until 1966) in the proportion of U.S. long-term assets to total assets to flatten out after 1966?

As to U.S. liabilities (foreigners' assets in the United States), the stability in the proportion of long-term to total liabilities suggests similar stability in the underlying liquidity perference of foreign investors. However, further study is needed to determine whether other factors were more important and how the behavior of foreign official agencies (who are probably guided by other motives and liquidity preferences than private foreigners) affected the structure of U.S. liabilities.

For U.S. assets, the change in trend in part reflected the behavior of direct investment. From 1960 to 1966, U.S. direct investments as a portion of total U.S. assets grew from 37 to 44 percent; the 7 percentage point increase was about the same as the rise in the ratio of long-term assets to total assets. After 1966, both the ratio of direct investments to total assets and the ratio of all long-term to total assets tended to level off.

These developments in part reflected the imposition of controls on direct investment but other factors were also important. The annual increases in direct investment assets tended to grow larger from 1960 to 1966. However, the sharp rise in the ratio of direct investment to total assets in 1965 and 1966 was also due to the fact that assets other than direct investment showed virtually no change in either year. After 1966, annual increments to direct investment leveled out, with some renewal of growth in 1969 and 1970. The leveling off in increments to direct investment after 1966 probably reflected the influence of the voluntary controls (instituted in 1965) and the mandatory controls (instituted in 1968).

Some indication of the impact of other capital control programs is also evident in table 5, although the movements are much smaller and more ambiguous than in the case of direct investment. Long-term claims on private foreigners reported by U.S. banks and U.S. holdings of foreign securities as proportions of total assets both showed a rising trend until the midsixties but then declined after the voluntary credit restraint program and the interest equalization tax were imposed and/or intensified.